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PUMP GAMES

Fill Up With Ethanol? One Obstacle Is Big Oil

Rules Keep a Key Fuel Out of Some Stations; Car Makers Push Back

By LAURA MECKLER

President Bush, domestic auto makers, farmers and others tout ethanol as a home-grown alternative to imported oil. Across the Midwest, plants that make the fuel out of corn are multiplying at a torrid pace. Yet so far, only a tiny fraction of U.S. service stations let a driver fill up with ethanol. There are a number of reasons, but one big one is resistance from oil companies.

Although some oil executives voice enthusiasm for alternative fuels, oil-company policies make it harder for many service stations to stock a fuel called E85, a blend of 85% ethanol and 15% gasoline.

These policies are hardly the only barrier to wider use of the ethanol fuel. Demand is limited by the small number of vehicles that can burn it—only about 5% of those on the road in America. It can be slightly costlier to burn E85, even though it costs less per gallon, because a car doesn't go as far on a gallon of the ethanol fuel as on gas-



oline. These demand restraints would limit service-station owners' enthusiasm for spending on the equipment needed to offer E85 even if the policies of the oil companies were not a factor.

But those policies add a significant extra obstacle. Oil companies lose sales every time a driver chooses E85, and they employ a variety of tactics that help keep the fuel out of stations that bear the company name. For instance, franchises sometimes are required to purchase all the fuel they sell from the oil company. Since oil companies generally don't sell E85, the stations can't either, unless the company grants an exception and lets them buy from another supplier.

Contracts sometimes limit advertising of E85 and restrict the use of credit cards to pay for it. Some require that any E85 pump be on a separate island, not under the main canopy.

Oil companies say they will allow

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stations to sell E85, but they must have certain rules for the protection of customers and protection of their brand. They call the restrictions reasonable and in some cases necessary to make sure drivers don't fill up with E85 if their vehicle can't burn it.

Most of the U.S.'s 170,000 fuel stations aren't owned by oil companies but are either franchised from them or independent. Less than 1% stock E85. Some experts say that to really take hold and be seen as a viable alternative to gasoline, the fuel would have to be available at, roughly, 10% of stations.

Targeting Stations

Those pushing for ethanol are targeting two very different types of fuel stations: those run by big retailers like Kroger Co. and Wal-Mart Stores Inc., and independent ones owned by small businesses. These represent the biggest and smallest of businesses, but have one thing in common: They aren't under the thumb of the oil industry.

Nearly half of the gasoline sold in the U.S. does have some ethanol in it. Oil companies routinely use it as an additive, typically at 10% ethanol to 90% gasoline, because the corn-based fuel burns cleaner. The blending enables companies to meet government smog-reduction rules. They also add ethanol because of a federal mandate on the industry as a whole, requiring that it use a certain amount of "renewable" fuels in its products.

Among those pressing for wider use of E85 are domestic auto makers, especially Ford Motor Co. and General Motors Corp. Ethanol is one energy initiative where they're out in front of Japanese car makers. While Toyota Motor Corp. and Honda Motor Co. are known for their gasoline-electric hybrids, Detroit, which has been heavily criticized for its sales of gas guzzlers, is far ahead in making "flexible-fuel" vehicles that can burn either gasoline or ethanol.

In Dwight, Ill., Becker's BP on Interstate 55 is one of just a few dozen major-brand gasoline retailers in the U.S. that sell E85. Owner Phil Becker says the governor wanted the state's vehicles to use E85 and targeted his station as a popular stop for state workers. He says BP PLC let him get the fuel from a non-BP supplier, and the Illinois Corn Growers Association gave him \$100,000 for new tanks and pumps that BP required.

"Because I've got E85 and we've advertised it, we've had four or five farmers that traded their trucks to get E85 vehicles," Mr. Becker says.

Exxon Mobil Corp.'s standard contract with Exxon stations bars them from buying fuel from anybody but itself, and it doesn't sell E85. A spokeswoman for Exxon Mobil says it makes exceptions case by case.

Even if one is granted, the station must follow rules including one that says E85 must be dispensed from its own unit, not part of an existing multi-hose dispenser. "This minimizes customer confusion around vehicle compatibility issues and maintains product quality integrity," says the spokeswoman, Prem Nair.

A ConocoPhillips memo to franchisees says the company doesn't allow E85 sales on the primary island, under the covered canopy where gasoline is sold. Stations must find another spot. As a result, it isn't quite as simple for a driver to decide on the spur of the moment to fill up with E85. ConocoPhillips declines to comment.

A Chevron Corp. agreement with franchisees also appears to discourage selling E85 under the main canopy. It says dealers offering alternative fuels cannot "deceive the public as to the source of the product," a phrase that some gas-station interests interpret to mean that E85 can't be sold under the main canopy. Chevron says it recommends, but doesn't require, that E85 pumps be outside the canopy.

Chevron says it requires Chevron and Texaco-branded stations to keep "E85" off their primary signs listing fuel prices. To show the fuel's price, and alert approaching drivers that E85 is for sale, the stations have to erect a separate sign.

More Expensive

Another Chevron recommendation makes it much more expensive for a station to offer E85 at all. Stations usually have three tanks, for the three gasoline grades, regular, mid-grade and premium. The easiest way to offer E85 in addition to these three is to convert the mid-grade tank to E85. Such a station can still offer mid-grade gasoline, because a "blender pump" can mix some regular with some premium, and mid-grade will come out of the hose.

But Chevron's agreement with station owners recommends they install new pumps and tanks at their own expense if they want to stock E85. Doing so can cost more than \$200,000 per station, according to a fuel-station trade group in Washington state called Automotive United Trades Organization. Chevron says it requires special tanks only if they're needed for safety.

Oil companies also require stations to stock all three grades, meaning sta-

One Obstacle Is Big Oil Companies

♦ The Issue: Many see corn-based ethanol as an important way to fight dependence on imported petroleum. But an E85 ethanol vehicle fuel called E85 isn't available at most U.S. service stations.

♦ One Reason: Oil companies don't make it easy for franchised stations to offer the fuel.

♦ Also In the Mix: Domestic auto makers that sell flex-fuel cars are increasing output of them and pushing for E85 availability.

tions may not simply replace a low-selling mid-grade with E85.

At BP, guidelines for stations that carry the company name bar any mention of E85 on signs on gasoline dispensers, perimeter signs or light poles. The stations also can't let buyers use pay-at-the-pump credit-card machines.

Selling E85 is "not impossible—it's just that they really kind of hassle you to not put it in," says Ron Lamberty, who owns two stations in South Dakota, one a BP station. Mr. Lamberty doesn't sell E85, even though he is director of market development for the American Coalition for Ethanol. He says he is looking into adding the fuel to his BP station in Sioux Falls.

Mr. Lamberty mocks BP's "Beyond Petroleum" slogan: "It's 'beyond petroleum' but not so far beyond petroleum that it would contain anything but petroleum," he says.

BP says its guidelines are in place so customers realize the mostly ethanol fuel isn't a BP product. The company also bars stations from selling it under another brand name, such as VE85, the brand of a maker in Brookings, S.D., called VeraSun Energy Corp.

A BP spokesman, Scott Dean, says, "When you've got 97% of your customers unable to use the product, you want to be very, very sure it is very clearly advertised." He says BP bought 718 million gallons of ethanol last year to blend into U.S. gasoline in small amounts. "BP is one of the largest if not the largest purveyor of biofuels in the U.S. and the world," Mr. Dean says.

E85 also faces barriers having nothing to do with Big Oil, like the limited number of cars that can burn it. Domestic auto makers have vowed to double production of flex-fuel vehicles to about two million a year by 2010 and to make half of their new vehicles sold in America E85-capable by 2012.

While the fuel usually costs less, it can be costlier to drivers because they

get about 25% fewer miles per gallon from ethanol than from gasoline. At a pro-ethanol group called the Iowa Renewable Fuels Association, Executive Director Monte Shaw estimates that E85 has to be at least 20 to 30 cents a gallon cheaper to compete with gasoline on price.

Iowa statewide average prices on a recent day were \$2.18 a gallon for regular gasoline and \$1.97 for E85, according to a Department of Energy Web site. Because E85 is less energy-intensive, the site said, it would cost the average owner of a big Chevy Tahoe SUV about \$2,364 a year to fuel it with E85, and \$1,935 to fuel it with regular gasoline.

Creating a Conflict

The price of ethanol has risen in the past year, partly because of demand from oil companies that want it for an additive. This usage creates something of a conflict for big ethanol producers like Archer-Daniels-Midland Co. Their main ethanol customers are the oil companies. Customers for E85 are far smaller and more fragmented.

ADM, whose yearly output of 1.1 billion gallons is more than 20% of the domestic ethanol market, says it is happy to sell E85 if someone wants it, but that is a "very small" part of its business. "Near term, we have focused more attention on the" additive side, says an ADM executive, Edward Harjehausen.

Even the main ethanol lobbying group in Washington, the Renewable Fuels Association, has focused mostly on developing the market for the fuel as an additive. "If you have a pump that sells E85 but you don't have customers pulling up to that pump, why do you want to bother?" says Bob Deenen, its chief lobbyist.

A few smaller producers do actively promote E85, such as VeraSun, which seeks to establish a branded E85. But even the smaller producers sell the bulk of their output for blending as a gasoline additive.

Because ethanol is more corrosive than gasoline, there's some concern it could leak out of a standard dispensing system and spark a fire. No E85 dispensing system—nozzles, hoses, pumps—has been certified by Underwriters Laboratories, the organization that tests the safety of products.

In October, UL suspended certification of parts that had been certified for use in E85 systems. Though there hadn't been any reports of problems, UL said it decided it needed to do its own safety research. Results aren't expected until late this year.

Among those trying to overcome

obstacles to E85 are the domestic auto makers. They have built flex-fuel vehicles for years because doing so gives them "credits" in their efforts to meet federal fuel-economy standards. Without the credits, Ford and GM wouldn't have met mileage goals for light trucks in 2003, 2004 and 2005 and would have owed fines. The mileage goals pose a bigger challenge to Detroit because of its heavy reliance on large, thirsty vehicles. Foreign makers generally haven't resorted to building flex-fuel cars to meet the mileage goals.

For Detroit, the credits applied even if the flex-fuel cars they built never actually burned ethanol. For a long time, the auto makers said little about ethanol, and many owners of flex-fuel cars didn't know they had them. But when gasoline prices surged in 2005 and 2006, GM and Ford saw their flex-fuel cars as a way to counter their image as gas-guzzler makers.

Both began promotional campaigns, such as one in which GM gave buyers in Chicago and Minneapolis \$1,000 gift cards good for E85. GM began to work with state officials to find grants to pay for installing pumping equipment. It has helped add E85 to 235 stations. Ford helped pay for installing 50 pumps so someone could drive from Chicago to Kansas City while filling up only with E85.

Among ethanol backers' recruits are two grocery chains. Kroger installed E85 at about 40 stations in Ohio and Texas. Privately held Meijer Inc. did the same in Michigan and Indiana.

Wal-Mart could provide a significant boost. It said last year it was considering selling E85 at its 388 company-owned stations but hasn't made a decision.

The U.S. tax code acts as a stimulus. Service-station owners can get a credit of up to \$30,000 for their outlays to convert equipment to sell E85.

Some states have done their bit to spur the market. New York enacted a bill last year that barred oil companies from requiring stations to buy all of their fuel from the companies.

In the Albany area, station owner Christian King has begun selling E85 at one of his three Mobil outlets and plans to do so at a second. He says Mobil's restrictions still mean he can't put the price of E85 on the main sign or let drivers charge it on their Mobil credit cards.

Adding E85 "is a personal thing," Mr. King says. "I'm trying to do anything I can to reduce our dependence on foreign oil. And if this thing kicks off, I'm in a position to benefit."